VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

New Home Market Gains Momentum

The new home market in the Vancouver CMA has been growing at a torrid pace. Housing starts in 2003 totalled 15,626 units, up 18 per cent over the previous year. New residential construction activity has increased significantly since the year 2000, with the number of housing starts almost doubling since then. The most dramatic growth occurred in multi-family construction, where 10,244 housing units were started last year, a 25 per cent increase over 2002. Single detached housing starts climbed 8 per cent last year, with 5,382 units started.

Historically low mortgage rates continue to draw a sizable contingent of first-time buyers and investors into the housing market. New condominiums are particularly popular with these groups. As a result, the supply of newly completed and unoccupied apartment condominiums in the Vancouver CMA is at an all-time low. The vacant inventory of new units has plunged from 2,428 units at the end of the first quarter of 2000 to just 49 units at the end of the first quarter of this year.

Apartment condominium builders are working flat out to supply the current demand. The number of units under construction has grown from 4,021 at the end of the first quarter of 2000 to 9,119 in March of 2004. This brings the current total supply (units under construction plus vacant inventory) to 9,168 units. Given the current robust demand for apartment condominiums, the total supply is 28 per cent less than the previous condominium bull market

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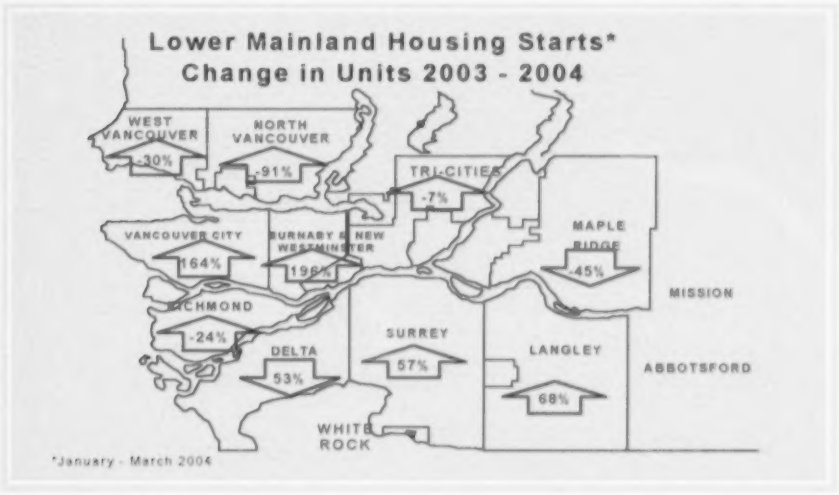

Spring 2004

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CMHC SCHL

HOME TO CANADIANS
Canada

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in 1994. By the end of the first quarter of 1995, the total supply of apartment condominiums reached 12,812 units. In addition, most of the units under construction today have already been pre-sold, meaning that the instant many of the current projects are completed, they will be 100 per cent absorbed in the marketplace.

A limited supply and strong demand will keep the Vancouver CMA multiple market buoyant this year. Multi-family housing starts are forecast to climb another 17 per cent in 2004 to 12,000 units, and a further 3 per cent to 12,400 units in 2005. The vast majority of apartment starts will be geared to the ownership market. Competition for available development sites has bid up prices to the point where new rental construction is not economically viable in many areas.

The average price of a new condominium apartment in the Vancouver CMA fell 16 per cent to $255,307 last year. The declining level of the average unit price is a result of the product mix. A greater number of small bachelor and one bedroom units were completed and absorbed into the market during 2003. These less expensive units, built for the first-time buyer and investor have had the effect of pulling down the average absorbed price for the year.

The average absorbed price of a new condominium apartment is forecast to climb 10 per cent this year to $280,000 and a further 4 per cent to $290,000 in 2005. Higher land costs, the scarcity and higher cost of skilled trades people, as well as increases in insurance fees will raise prices for all units. In addition, the mix of units is expected shift to larger and more luxurious accommodations. With an expected waning of the first-time buyer and investor markets over the next 24 months, many developers now see the need to re-examine their target markets. As well, high land prices in the downtown core are making it difficult for developers to achieve the price points necessary to attract first-time and investor buyers.

This year, new townhouse prices are expected to post the largest year-over-year gain of any product type. The average absorbed price of a new townhouse in the Vancouver CMA in 2004 is forecast to increase 17 per cent to $308,000. The high cost of single detached homes in Vancouver is driving consumers to lower price townhouses. Townhouses offer the ground orientation many consumer want, and are often situated in superior locations. With local planning authorities encouraging higher density development, townhouse

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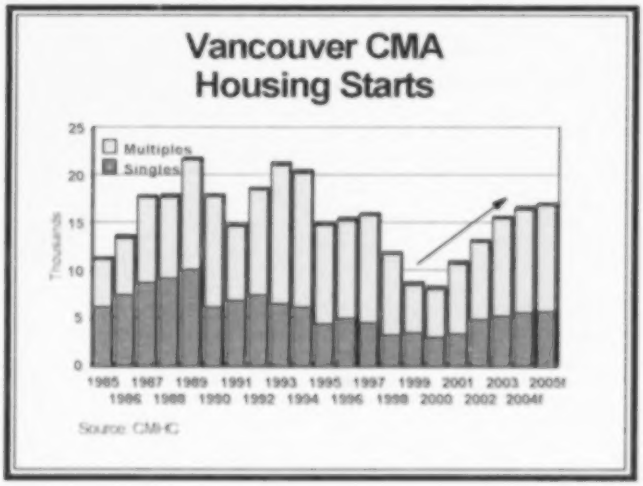
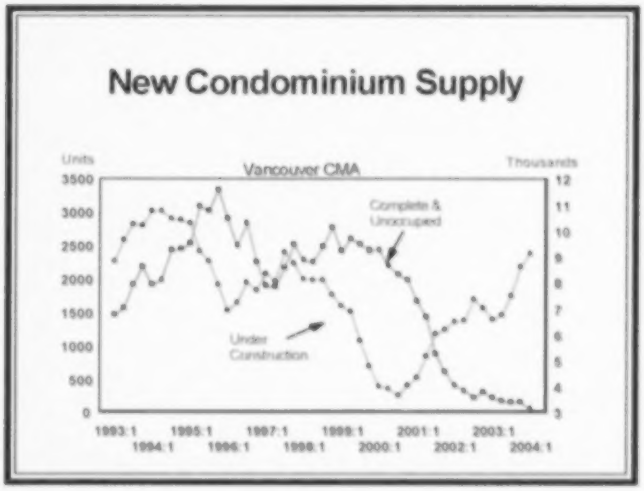
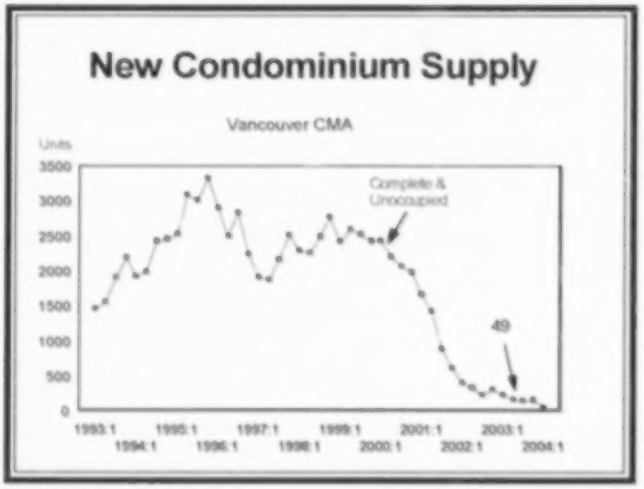






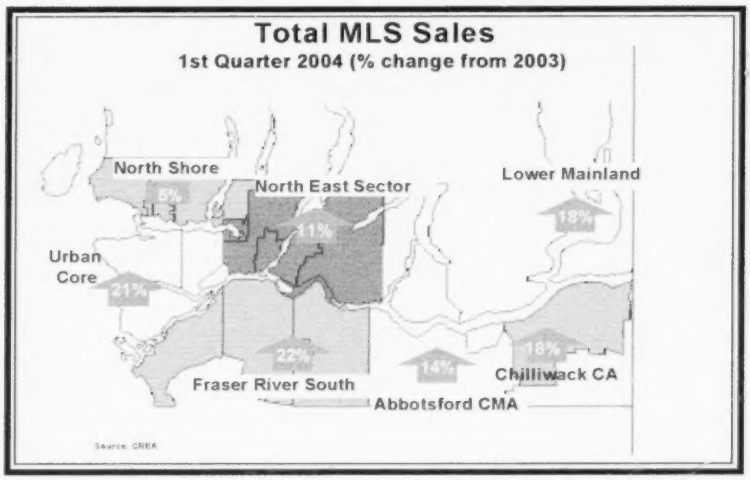
Resale Market Breaking Records

Last year was one for the record books. More units were sold through the Real Estate Board of Greater Vancouver during 2003 than any year in its history. A total of 39,022 units changed hands last year (38,259 residential homes), eclipsing the previous record of 38,774 units in 1992. During the early 1990s, a rapid increase in net migration provided the pressure required to drive home sales to new highs. However, this time around, demand for residential real estate is much higher than the meager population growth figures would suggest.

So what is happening? The difference today is that first time buyers and people buying second homes for investment or recreation are driving the market. The net effect is the same as doubling the population growth rate, except that in today's scenario, there are more units likely to sit vacant than if the market was driven by population growth alone. The result is increasing rental vacancies and more vacation homes lying dormant for much of the year. All this has been made possible by a surge in affordability brought on by reduced interest rates.

The last time Canadian chartered banks offered mortgage rates at their current levels you could buy a 1956 convertible right out of the showroom. Unlike the mortgage business today, back then there was little room to negotiate a lower rate for a home to park your new ragtop in front of. Low mortgage rates have elevated the purchasing power of Vancouverites to the point where the average household can afford to borrow $40,000 more today than they could have just a few years ago.

This bump up in purchasing power has had made the biggest impact on renters. While

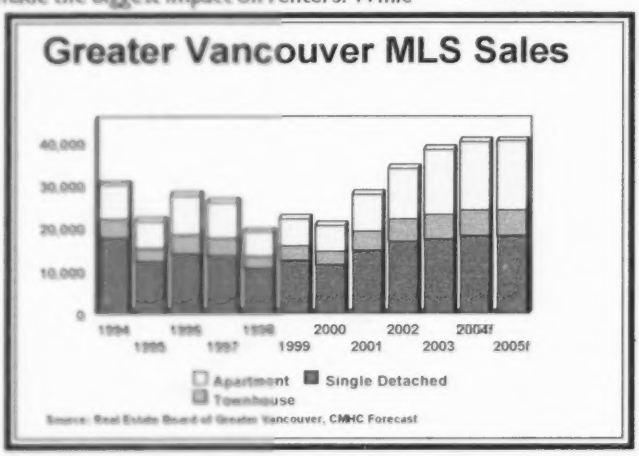


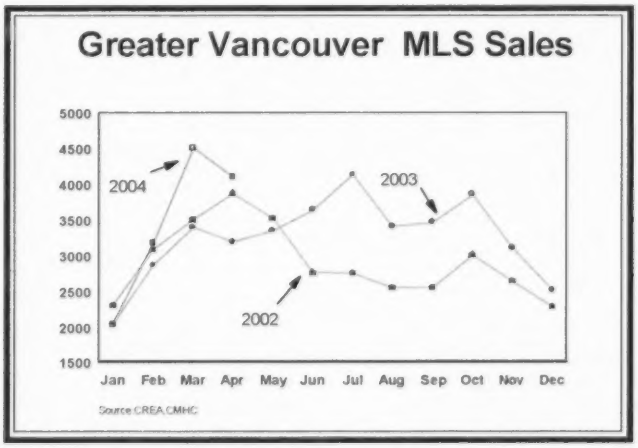
current homeowners benefit from trade-up opportunities, it is households that do not own their homes that tend to act first and propel the market in the short term. The lack of condominium listings is evidence of this trend. Condominium apartment active listings are at their lowest levels since 1991, with sales to active listing ratios are at their highest since 1989.

Low mortgage rates also helped investors. Beleaguered by volatility in the equity markets and poor returns from fixed investments, real estate has become a sensible alternative for many investors. However, even with the help of higher purchasing power, returns from Vancouver condominiums are still the poorest in the country. Instead of looking for cash flow, Vancouver investors are betting on rising prices to achieve superior returns. It is this confidence in Vancouver's future that is reverberating throughout the housing market.

Housing is a long-term investment, making confidence in the future a necessary ingredient for home sales. While purchasing power has been enabling for many households, increasing job growth and an improving economy has proved to be the tipping point for many homebuyers. The 2010 Olympics are also a factor in the formation of a new optimism in Vancouver. However, the direct impact of the Olympics on the housing market is likely insignificant compared to the general belief that things are getting better.

The year head will likely be another record breaker. Increased housing starts and a waning of first time buyers will signal a transition in the market. A more robust economy will trigger the first positive inflow of migrants from other provinces in 5 years. This return to a more traditional, population-based growth will make housing demand in Vancouver sustainable.





Mortgage Rate Outlook

Record low mortgage rates will persist in 2004. An accommodative monetary policy coupled with low inflation will act to sustain low Canadian interest and mortgage rates over the next few quarters. However, the question is not if rates will climb but when they will. All eyes are focused south of the border, where a reinvigorated U.S. economy will certainly push up interest and mortgage rates.

The so-called jobless recovery last year in the U.S. that resulted in large productivity gains and low inflation has run its course. The latest U.S. employment figures show solid job growth and have already pushed long-term bond yields up. This is a precursor to further rate increases in the latter half of 2004 and into 2005.

As the Canadian and U.S. economies strengthen this year and into the next, monetary policy will begin to tighten, leading to interest rate increases. The U.S. will likely be first off the block, narrowing the spread between both nations' key lending rates. The resulting downward pressure on the Loonie will be good news for Canada's exporters.

Short-term mortgage rates move in tandem with the bank rate, while longer-term mortgage rates vary in response to the cost of raising funds in the bond markets. An improving U.S. economy will put upward pressure on bond yields, and by extension, long-term mortgage rates. Look for short-term mortgage rates to rise in response to the Bank of Canada increasing its Bank Rate to combat inflationary pressures.

Long term mortgage rates will be the first to edge upward, followed by short-term rates. Expect one, three, and five year posted mortgage rates to remain relatively flat for the remainder of this year. However, provided the North American economic recovery stays on track, these rates will increase to the 4.25-5.25, 5.75-6.75 and 6.25-7.25 ranges respectively in 2005.

Major Life Events Influence Home Purchases

Buying a home is a major life event and factors such as mortgage rates, income, and expected returns on investment exert a strong impact on the decision to purchase a home. However, other major life events, such as marriage, the birth of a child, or changes in employment may be occuring at the same time as the purchase of a home and may contribute to the decision.

According to the September 2003 Financial Research Monitor (FIRM) Residential Mortgage Survey results, six per cent of all respondents surveyed intend to buy a home in the next year. Of that group, 32 per cent intend to purchase a more expensive property, while 25 per cent intend to purchase their first home.

Low mortgage rates and the high level of consumer confidence have been the driving factors for many individuals who have recently become active in the housing market. Some homebuyers also experience major events at or near to the same time as buying a home. These Major events may play a part in the decision to purchase a home.

Of the households surveyed in September 2003, the top three most common life events experienced in the past year were a shift in employment (a new job/changing jobs), the birth/adoption of a child, and retirement. Analysis of the survey results suggests a coincidence between buying a home and other major life events. Some of these major events create an added push to a household's decision to purchase a home.

Certain events seem to have a larger impact on the decision to move than others. The share of households experiencing birth/adoption of a child, inheritance, final payment on a mortgage, separation/divorce and start of a home business, which intended to buy a home was much larger than the share for the households in the overall survey, which did not experience one of these particular life events. This may indicate that these particular events were more influential in the decision to move than other events such as changing jobs or retirement.

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Are We Experiencing a Turning Point ?

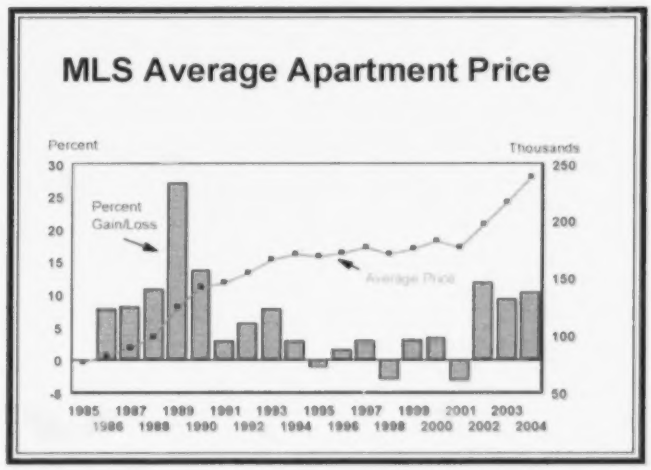
The first quarter of 2004 posted a significant increase in the number of sales through the Real Estate Board of Greater Vancouver. In fact, sales in the month of March totaled 4,514 units, the highest number of sales in a single month ever! However, are we seeing the beginning of a new period of record sales levels and rapidly rising prices, or is it the precursor to a leveling out of sales and a slowing of the growth in prices?

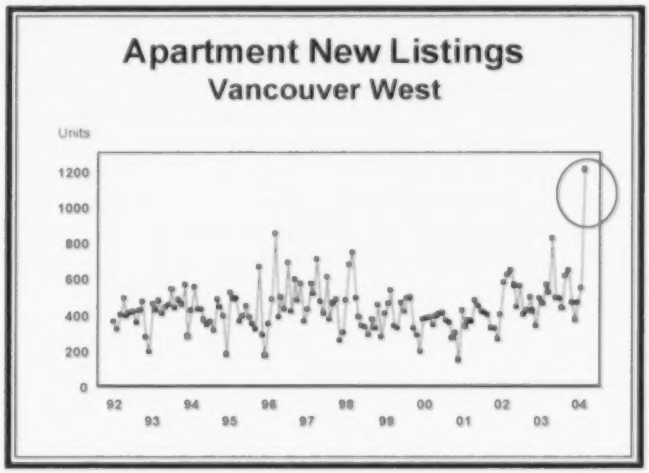
Sales levels are the most obvious indicator of market performance. High sales levels are responsible for drawing down inventories. If the condition is prolonged, as it has been in Greater Vancouver, sellers' market conditions prevail and prices rise, sometimes dramatically. Active listings in Greater Vancouver remain historically low. Many would-be homebuyers now find if difficult to not only find the right home, but also to purchase it because of competition from other buyers. In a sense, there exists a pent-up demand from would-be homebuyers.

Now, suppose the number of new listings suddenly increases, as it did in March and April. The number of new listings during that period was the highest ever recorded for a two month period. Those would-be buyers were suddenly able to find suitable homes and proceeded to complete their transactions. The result was a large spike in home sales across Greater Vancouver.

This may signal a turning point in the Greater Vancouver resale market, at least in terms of rapidly rising prices. If the number of new listings in the following months remain near historic highs, we may see the market turn toward more balanced conditions. More parity between supply and demand will evolve, curbing some of the inflationary pressure on pricing.

The rise in home prices in the first quarter of 2004 was the most significant in years. However, we may be at the cusp of a prolonged period of high new listing levels. This will eventually increase active listings, offer more choice to home buyers and slow down rapidly rising prices.





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The Impact of Mortgage rates on Housing Starts

Mortgage rates clearly have a significant impact on the level of activity in the housing market. But what is the size of this impact, and is it measurable? Recent analysis by CMHC sheds new light on this important subject. There are a number of economic factors that can affect housing markets. These include migration, employment growth and income levels, house prices, and rent levels. However, given the prevailing low level of mortgage rates, it is important to understand to what extent these are driving demand for new homes. CMHC's analysis, which covers the period between 1986 and 2003, estimates the impact of a 1 percentage point change in the 5-year mortgage rate on housing starts.

According to our nationwide result, a decrease of 1 percentage point in the 5-year mortgage rate corresponds to an increase in housing starts of between 8,000 and 12,000 units across the country over the 12 month period following the change. On the other hand, a 1 percentage point increase in the 5-year mortgage rate was found to have the opposite effect, causing housing starts to decrease by 8,000 to 12,000 units.

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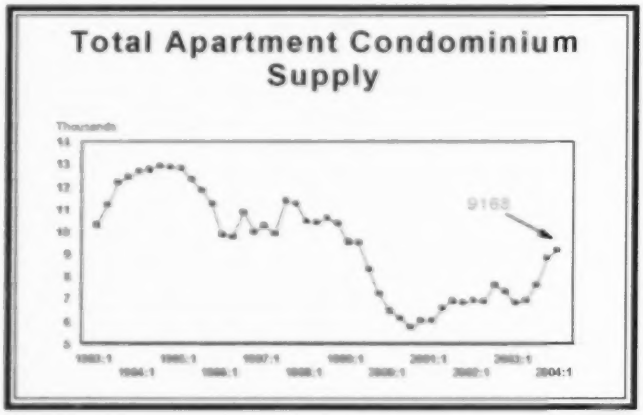
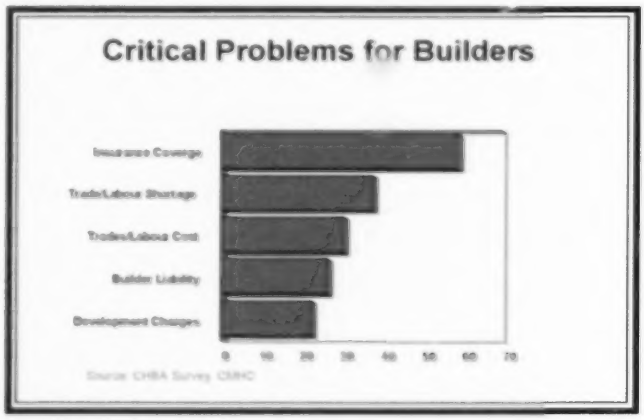
developments often enjoy close proximity to community amenities and receive superior services.

Single detached housing starts in the Vancouver CMA increased 8 per cent to 5,382 units last year. A limited land supply close to urban centres has inhibited the construction of these traditional homes. In 2004, however, single detached housing starts are forecast to grow 11 per cent across the region to 6,000 units. Increased land availability this year in the suburban markets will bolster single detached construction this year. Moreover, small lot single detached homes are gaining popularity, and will help drive construction levels up this year.

The average absorbed price for a single detached home across Greater Vancouver is forecast to rise another 7 per cent, to $535,000 this year, and a further 3 per cent to $550,000 in 2005. Rising land prices and increases in labour and materials costs will keep new single detached home prices on the rise over the next two years. A greater proportion of units will be built in the suburban markets this year than last. This will as act a moderating influence on prices as new single detached homes in these markets are less expensive than those near the urban core.





COMING SOON: 2004 SENIORS' HOUSING MARKET SURVEY

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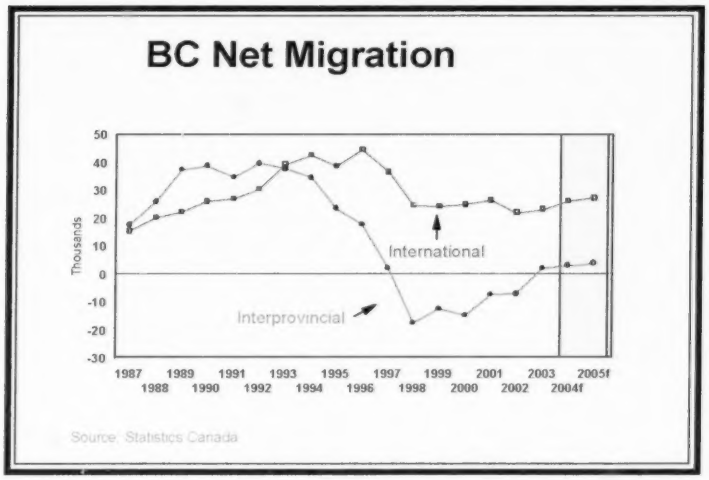
The B.C. Economy



It appears that the economic malaise in the U.S. has come to an end. Employment growth south of the border has already lured many investors back into equities on the expectation of higher corporate profits this year. As a result, long-term bond yields have been driven higher in an effort to compete with alternative investments.

U.S. economic expansion is important to B.C. for two reasons: Firstly, higher bond yields will drive mortgage rates up, thereby reducing the purchasing power of households. While the robust B.C. housing market will not be significantly impacted by the expected gradual rise in rates over the next 24 months, this will likely be the last year of double digit price increases in this cycle.

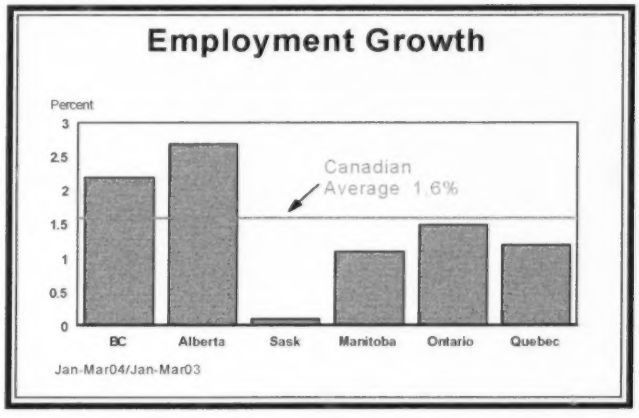
Secondly, a reinvigorated U.S. economy will benefit B.C.'s exporters, especially the resource sector. Increased demand from the U.S. has already contributed to rising commodity prices, including lumber, oil, and natural gas. This will help offset the higher value of the Canadian dollar and lead to some much needed employment growth in this sector.

Domestic consumption has kept the provincial economy moving during the last few years. Low interest rates and strong consumer confidence has contributed to solid retail sales growth. This trend is expected to continue this year, with strong performance in the residential sector and related products. The B.C economy will begin to fire on all cylinders for the first time in several years in 2004. Increased demand for B.C. exports and strong domestic spending will be good news for the province after weathering the effects of forest fires, floods, BSE, SARS, and a rising dollar last year. As a result, B.C. GDP growth will reach 3 per cent this year and 3.3 per cent in 2005. GDP growth in 2003 was 2.2 per cent, above the Canadian average of 1.7 per cent.

B.C.'s improving economy has had a positive effect on job growth. Last year, employment in the province increased 2.5 per cent, above the Canadian average of 2.2 per cent. In addition, a definite upward trend in full-time employment, offsetting part-time workers has been evident since the beginning of 2003. This is a signal that employers' bottom lines are looking better and that their outlook is positive. B.C. employment grew by 2.2 per cent in the first quarter compared to the same period last year, above the Canadian average of 1.6 per cent.

Since the economy is on the upswing, and job growth is above the national average, the province is now showing the first positive net inter-provincial migration since 1997. While a total of only 2,094 moved to B.C from other provinces on a net basis, it is a wide swing from the 20,000 people who left B.C. in 1998. The number of net inter-provincial migrants is expected to increase over the next year, albeit marginally to 3,000, with employment growth up 2.0 per cent for the year.

Strong fundamentals point to improving economic conditions in the province over the next two years. The torrid pace of residential investment is expected to be bolstered by increasing investment in the non-residential sector, particularly institutional investment around transportation improvements and Olympic infrastructure.



Forecast Summary

	2002	2003	%CH	2004	%CH	2005	%CH
RESALE MARKET FORECASTS							
MLS - GREATER VANCOUVER							
Single Detached	16,784	17,216	2.6%	18,100	5%	18,000	-1%
Townhouse	5,113	5,842	14.3%	6,000	3%	6,000	0%
Apartment	11,967	15,101	26.2%	15,900	5%	16,200	2%
MLS - FRASER VALLEY							
Single Detached	9,288	10,231	10.2%	10,500	3%	10,000	-5%
Condo	4,577	5,538	21.0%	5,800	5%	5,500	-5%
MLS - TOTAL SALES	47,729	53,928	13.0%	56,300	4%	55,700	-1%
Single Detached	26,072	27,447	5.3%	28,600	4%	28,000	-2%
Condo	21,657	26,481	22.3%	27,700	5%	27,700	0%
AVERAGE MLS PRICE - GVA							
Single Detached	$393,953	$449,905	14.2%	$525,000	17%	$540,000	3%
Townhouse	$247,215	$270,414	9.4%	$310,000	15%	$315,000	2%
Apartment	$197,654	$216,169	9.4%	$248,000	15%	$252,000	2%
MLS - FRASER VALLEY							
Single Detached	$271,464	$301,690	11.1%	$348,000	15%	$360,000	3%
Condo	$154,636	$153,408	-0.8%	$180,000	17%	$188,000	4%
NEW HOUSING FORECASTS							
STARTS							
VANCOUVER CMA							
Total	13,197	15,626	18.4%	18,000	15%	18,500	3%
Single-Detached	4,980	5,382	8.1%	6,000	11%	6,100	2%
Multi-Family	8,217	10,244	24.7%	12,000	17%	12,400	3%
ABBOTSFORD CMA							
Total	1,038	1,056	1.7%	1,180	12%	1,225	4%
Single-Detached	558	634	13.6%	680	7%	710	4%
Multi-family	480	422	-12.1%	500	18%	530	6%
AVERAGE PRICE							
VANCOUVER CMA							
Single-Detached	$465,288	$499,778	7.4%	$535,000	7%	$550,000	3%
Townhouse	$253,021	$263,535	4.2%	$308,000	17%	$325,000	6%
Apartment	$303,669	$255,307	-15.9%	$280,000	10%	$290,000	4%
ABBOTSFORD CMA							
Single Detached	$275,044	$316,054	14.9%	$325,000	3%	$345,000	6%
Townhouse	NA	$234,939		$240,000	2%	$252,000	5%
Apartment	NA	$150,750		$155,000	3%	$160,000	3%

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